

Going to Display Rack and Ruin

Ever hear the phrase “all that glitters is not gold?” It applies to fraudulent display rack business opportunities.

Fraudulent promoters across the country are offering entrepreneurs like you the chance to make \$100,000 or more a year selling licensed products from well-known companies. Their pitches include some great claims: *No selling. You won't have to quit your job. You can work from home. You can make your own hours.* Indeed, they say that for an investment of as little as \$15,000, all you have to do is restock profitable high-traffic display rack locations like malls, shopping centers, gift shops, convenience stores, supermarkets, and chain drug stores.

Sounds like a dream opportunity, right? Wrong!

Entrepreneurs who invest in business opportunities like these rarely make the big money they're promised.

Promoters often supply undesirable merchandise—for example, outdated products that may never have captured the public's attention—and unprofitable locations. In fact, would-be business owners generally lose their entire investment.

You may see newspaper ads promoting display rack business opportunities for the sale of stuffed animals, action figures, and other licensed products. Fraudulent promoters claim they're affiliated with well-known consumer product companies and that their licensed products “sell themselves” in high-traffic locations. For an initial investment of \$15,000 or so, they promise you'll hit “display dirt”: retail sales of \$20 to \$40 a day per display with annual profits of \$100,000.

The fact is that entrepreneurs who invest often are supplied with outdated toys and unprofitable locations. Average daily earnings are minuscule.

If you're thinking about investing in a display rack opportunity, the Federal Trade

Commission has a message for you: Check out their claims to avoid going to display “rack and ruin.”

Business Opportunity Checklist

- **Check out the promoter:**
- Call the legal department of the company whose merchandise is being promoted.
- Find out whether the promoter is affiliated with the company.
- Ask if the company has ever threatened trademark action against the promoter.
- **Question promises** that your entire investment will go for “display racks and initial inventory.” The promoter's sales commissions on your purchase of products may eat up as much as 30 to 40 percent of your investment.
- **Ask the promoter** if you'll be charged wholesale or

retail prices for your initial inventory. If you pay retail, you'll have to mark up the price to make a profit. That means you probably won't move much inventory. Even if the promoter agrees to sell you inventory at wholesale prices, you may get out-of-date merchandise that never sold in the first place. Either way, you lose.

- **Check out locator companies.** These are third-party firms, usually recommended by the promoter, that you hire to locate display rack sites. They first may claim they've done market surveys in your area. Ask for copies. Typically, a firm charges you \$200 per site; the locator gets half the fee. Since high-traffic stores could sell popular consumer products on their own, locators may be able to secure low traffic locations only.
- **Get a list of previous investors,** as well as their addresses and phone numbers. The FTC's Franchise Rule requires it, and any legitimate business should be happy to provide it. If possible, visit one or two investors—and their locations—in person. If you call, you may talk to a “singer” or a “shill”—a person hired by the promoter to give a favorable

report on the business.

- **Get earnings claims in writing as well as substantiation.** Insist that the promoter give you written substantiation in the disclosure document required by the Franchise Rule. Be sure this includes the number and percent of others who have earned at least as much as the promoter claims. If the promoter hesitates or refuses, walk away. Don't believe what they say about sales, profits or income.
- **Consult an attorney, accountant, or other trusted financial or business advisor** before you sign any agreement or make any upfront payments. Ask your attorney to review the company's contract and advise you on how best to proceed.
- **Call the Bureau of Consumer Protection,** and the Better Business Bureau where you live and where the promoter's business is headquartered. Ask if there are any unresolved consumer complaints on file. This is a prudent and practical way to proceed, but not foolproof.

Dollars and Sense

Buying into any business opportunity can be expensive.

If it turns out to be a scam, it can cost more than money. Before you make any financial commitments:

- Decide how much money you can afford to lose; don't let anyone talk you into investing more. If the business is successful, you can expand it later.
- Determine how much income you need from the business. Talk to other investors to see if they are making that much after meeting their expenses.
- Insist on meeting experienced investors in person, and visit their locations.
- Find out where your money is going. How much for sales commissions? How much for equipment and supplies? How much for initial inventory?
- Figure out how much you will have to sell—and at what price—to recover your investment. Be sure that the prices you need to charge are competitive in your location.

For More Information and Help

If you think you've been defrauded by a display rack business opportunity promoter, contact the company

and ask for a refund. Let the company know that you plan to contact law enforcement officials about your experience. Keep a record of your conversations and correspondence. If you send documents to the company, make sure you send copies, not originals. Send correspondence by certified mail, return receipt requested, so you have a record of what the company received.

If you can't resolve the dispute with the company, several organizations may be able to help you:

- The **Department of Agriculture, Trade and Consumer Protection**, Bureau of Consumer Protection at (800) 422-7128.
- The advertising manager of the publication that ran

the business opportunity ad.

- The **Federal Trade Commission**. To file a complaint with the FTC, write: Consumer Response Center, Federal Trade Commission, Washington, D.C. 20580. While the FTC cannot intervene in individual disputes, the information you provide may indicate a pattern of possible law violations requiring action by the Commission.
- The **National Fraud Information Center** (NFIC) at 1-800-876-7060, 9 a.m. to 5 p.m. EST, Monday through Friday. NFIC, a project of the National Consumers League, is a nonprofit organization that operates a hotline to provide serv

ices and help for consumers who may want to file complaints. NFIC also sends appropriate information to the Federal Trade Commission/ National Association of Attorneys General Fraud Database.

To file a complaint or for more information on business opportunities, contact the Bureau of Consumer Protection at:

(800) 422-7128

FAX: (608) 224-4939

TTY: (608) 224-5058

E-MAIL:
datcph hotline@datcp.state.wi.us

WEBSITE:
http://datcp.state.wi.us/ /

(Taken from FTC fact sheet 8/97)

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